Statement of Keith Collins
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Before the U.S. Senate Committee on Appropriations

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Mr. Chairman and Members of the Committee, thank you for the opportunity to participate in this hearing on issues related to the recent BSE-positive cow found in Washington State. My remarks focus on how the finding of BSE has affected cattle and beef markets and what the short-term outlook is for these markets in coming months. I would also like to address the Administration's efforts to normalize trade in important U.S. export markets that have remained largely closed since the discovery of BSE in December. Lastly, I will touch on development of a national animal identification program.

Impact on Domestic and Export Beef Markets

Cattle and calves represent the largest commodity enterprise in the U.S. agricultural economy, accounting for 20 percent of the total annual value of farm sales. The discovery of the BSE-positive cow had an immediate, adverse effect on U.S. cattle markets. Futures markets for live and feeder cattle fell their allowable limits for three consecutive trading days, ultimately closing about 15 percent below pre-BSE levels and erasing much of the gain in cattle markets that had occurred over much of the fall as cattle prices hit record levels (Chart 1). Cash prices for Nebraska steers fell from $91 per hundredweight (cwt) on December 23 to about $75 per cwt by the following week (Chart 2).

The primary reason for the price decline following the finding of BSE was the suspension of imports of U.S. beef by most foreign countries. For 2003, beef exports were 2.5 billion pounds, accounting for about 10 percent of U.S. beef production. U.S. exports of beef, veal and variety meats in 2003 were valued at $3.86 billion. Countries accounting for 91 percent of this trade have suspended purchases of these products from the United States. Another $64 million in live cattle were exported in 2003, and that trade has ceased. In addition, various countries have stopped imports of related products including beef tallow, hides and skins, and meat and bone meal. The value of trade reductions in these products, mostly hides, skins and tallow, could be in the hundreds of millions of dollars if these markets cannot be restored. Although some countries, such as Canada, have indicated they will import certain beef products, the loss of most exports means beef products that otherwise would be exported now must be absorbed in the domestic market.

The Department's beef export forecast for 2004, released in early February, has been reduced more than 90 percent from December's pre-BSE forecast (Table 1). It is our forecasting practice to assume the announced policies of foreign countries remain in place until countries change them. Thus, as countries reopen their markets to U.S. beef as the year progresses, we would expect to be able to raise our export forecast. At this time, Canada remains the only major importer currently accepting beef from the United States, with the restriction that imported beef must be boneless and from animals less than 30 months of age.

Although the discovery of a BSE-positive cow has had significant impacts on international trade, the effects on U.S. meat production are expected to be minimal. U.S. beef demand has remained firm and the long-term nature of the cattle cycle are expected to limit changes in cattle production. In addition, U.S. consumer purchases of beef appear not to have been affected.

The increase in domestic beef supplies as a result of the loss of export markets means that U.S. consumers will have to purchase about 5 percent more beef per person at retail during 2004, compared with 2003, to bring beef supplies in line with demand. Consequently, cattle and beef prices are expected to be lower than they would have been had BSE not been found. USDA forecasts prices for fed cattle in 2004 at $72 to $77 per cwt, compared with the $84 to $91 per cwt that was forecast in December prior to the discovery of BSE. Again, this forecast assumes the loss of over 90 percent of export sales. As trade is resumed with other countries, stronger prices would be expected.

Prior to the finding of BSE, cattle prices were expected average a record high in 2004. The strong cattle market in 2003 and expected again for 2004 reflected rising consumer demand for meat protein, reduced cattle inventories and smaller calf production as a result of the long liquidation in the nation's cattle herd that began in 1996 and has been exacerbated by poor forage conditions in recent years due to western droughts, and the prospects of rising exports as the global economy improved. The decline in cattle prices is expected to reduce cattle and calf receipts to producers from $44.1 billion in 2003 to $38.2 billion in 2004, a decline of $5.9 billion, thus returning receipts to the level of 2002. Despite this decline, when evaluated at the midpoint, our current fed cattle price forecast remains above the previous 5-year average by 4 percent and would be the second highest average price in the past 11 years.

As a result of the loss of beef exports and the Asian bird flu, import supplies of beef and poultry for global importers are tight. Barring no further U.S. outbreaks of avian influenza, the United States is in a good position to expand poultry and pork exports to fill the meat needs of these countries. We are now expecting 2004 broiler exports to be 7 percent above 2003 and pork exports to be up over 3 percent.

Trade Initiatives

Regaining our export markets is crucial to the prosperity of the cattle industry in the United States and that has been a top priority for the Administration. We are pleased that Poland has become the first country to reinstate imports of U.S. beef. The conditions our trading partners impose on us for re-opening trade must reflect what science tells us. We know that the risk to public health from BSE is extremely low in countries that have no or low BSE incidence in cattle, and that also have appropriate mitigation measures in place.

The United States is leading the effort to ensure that the international response to BSE is science-based. After the find in Canada last May, we reacted exactly the way countries are now treating the United States—we shut off all beef and cattle imports from Canada. However, after conducting a complete and thorough investigation into the incident, and evaluating the additional safeguards Canada made to its already strong system, we allowed trade in low-risk products to resume in late August.

The United States reviewed the scientific evidence and determined that imports of boneless beef from animals under 30 months of age and other low-risk products could

safely resume. The U.S. decision was consistent with international scientific standards that allow for trade to resume when a country has taken the necessary actions to prevent the spread of BSE.

In addition, together with Canada and Mexico, we have asked the OIE to clarify its guidelines regarding trade among countries with BSE so that science guides the actions of all countries. We expect the OIE to issue an updated chapter on BSE in the spring.

U.S. beef is safe for consumers in the United States and around the world, and we are urging our trading partners to base their decisions on science. Since December 23rd, we have worked continually to inform our trading partners about the case, the steps we are taking to investigate the situation, and the additional safeguards we have implemented.

Within days of the finding, USDA's senior trade advisor, David Hegwood, and Dr. Chuck Lambert, Deputy Undersecretary for Marketing and Regulatory Programs, went to Japan and South Korea to explain the investigation and the rigorous safeguards that we already had in place.

In February, U.S. Trade Representative Zoellick and Secretary Veneman each had very encouraging meetings with the Japanese trade minister. Minister Kamei stated that Japan is looking forward to resuming trade.

USDA Under Secretary for Farm and Foreign Agricultural Services Dr. J.B. Penn also led a delegation of USDA and FDA officials to Japan, Hong Kong and South Korea for further discussions.

In addition, the Secretary has talked with ministers from Canada, Mexico, the Philippines and others on an ongoing basis to keep them informed of our progress. We have been quite pleased with the reactions of both Canada and the Philippines. Both countries have allowed at least a portion of their markets to remain open to our beef.

Dr. Penn and USDA Under Secretary for Marketing and Regulatory Programs Bill Hawks traveled to Mexico for productive discussions as well, and other U.S. officials discussed these issues in China.

On January 16th, Secretary Veneman met with her counterparts from Canada and Mexico, Minister Speller and Secretary Usabiaga, to discuss the need to enhance and coordinate a consistent North American response to the animal health and trade issues that BSE raises. We agreed to develop an enhanced consultative process led by senior officials in each of our respective departments to facilitate these efforts. The work is already underway, and we expect the officials to meet within the next 30 days.

In addition, technical teams from Japan and Mexico spent several days in the United States, meeting with technical experts at USDA and the Food and Drug Administration. The Japanese team also traveled to the State of Washington to review the investigation there, and the Mexicans visited processing facilities in Colorado.

USDA staff stationed at U.S. embassies around the world continue to inform foreign governments of actions taken and reassure them of the safety of our beef. In addition, we held a briefing two weeks ago for all foreign embassies to keep them informed of new developments in the BSE investigation and to respond directly to their questions.

Our efforts to restore our foreign markets continue to be a top priority, and we urge our trading partners to resume trade based on sound scientific principles and avoid

unnecessary restrictions on consumer choice in their countries and financial hardships on our producers.

Development of a National Animal Identification Program

On January 12, 2004, Secretary Veneman appointed USDA Chief Information Officer (CIO) Scott Charbo to advise her on how to move forward with a national animal identification program. Subsequently, concerned over technology, legal and economic issues, the Secretary asked General Counsel Nancy Bryson and myself to work with the CIO to develop these recommendations.

With the advent of increased animal disease outbreaks around the globe over the past decade, there has been increasing interest in developing a national animal ID program for the purpose of protecting animal health. A number of animal ID programs have come into use over time for a variety of purposes, ranging from herd management to protecting animal health to the development of value-added marketing programs. A significant effort was initiated in 2002 by a joint Federal-State-private partnership. A national plan, the U.S. Animal Identification Plan (USAIP) was developed by experts representing over 70 organizations and aided by the National Institute for Animal Agriculture and USDA's Animal and Plant Health Inspection Service. A draft of that plan was completed in 2003 and refinements on it continue.

The CIO, the General Counsel and I have been reviewing that plan and meeting with a variety of interest groups to assess the objectives these groups would like a national ID program to achieve. Based on the Secretary's vision, the views of market participants, the ID systems in place today, and the plans developed by the livestock industry embodied in USAIP, we have developed a set of preliminary principles that we believe could guide implementation of a national animal ID system.

The goal is to create an effective, uniform, consistent and efficient national animal identification system by:

- Allowing producers, to the extent possible, the flexibility to use current systems or adopt new ones, but not burden them with multiple identification numbers, systems or requirements.
- Building on the data standards developed in the USAIP.
- Remaining technology neutral in order to utilize all existing forms of effective technologies and new forms of technology that may be developed.
- Designing architecture for the system without unduly increasing the role and size of the government.
- Ensuring that the system does not preclude producers from being able to use it to add value by aligning production management with market incentives.

As we have reviewed this issue, we have been struck by the number of difficult policy questions that must be resolved in order to move ahead with a national program. Let me offer a few examples relating to a cattle identification program:

- Much of the motivation behind a national animal ID system is to facilitate trace back to the birth premise in the event of an animal disease outbreak, so animals exposed to disease throughout the supply chain can be quickly

located. In designing this system, what should be the appropriate time standard for being able to locate animals?

- It has been estimated that half of all cow-calf operations use no individual animal ID system for calves or cows. Given the educational and implementation challenges this presents, what kind of identification on each animal would be feasible and acceptable in a national system? What is a reasonable timetable for implementing this national system?
- There are questions as to how pervasive the ID system should be. Does an effective system need to have 100 percent of all cattle participating? Can a mandatory system be implemented with existing statutory authority or is new authority needed? What animal species should the system cover?
- Due to importance of trade in both meat and live animals between the United States and foreign markets, how compatible should such a system be with identification systems in other countries?
- Many producers are concerned about what the government would do with the information about their cattle and operations. Who should own, hold, manage and have access to the information? Where should the information be stored? What privacy restrictions should be imposed on the information collected? Does existing statutory authority provide for these restrictions or is new authority needed?
- A key issue is whether identifying each animal should be viewed as a normal, private cost of doing business in the cattle industry or whether the costs would be the result of a regulatory requirement imposed by government that may justify public funding. The President's budget for USDA for fiscal year 2005 requests $33 million to accelerate the implementation of a National ID system for animals. This funding level accounts for only a portion of a national system. This raises the question of who should pay what costs of the system; moreover, what are the costs of various systems to producers, dealers and markets, processors, and government? What are the benefits that would justify the costs?

Many people have been working on these questions and provided a range of answers to many of the questions. We are reviewing that work and hope to offer our thoughts to Secretary Veneman in the near future. We know there is great interest in moving forward with a national animal ID system. USDA is committed to that goal and wants to ensure that the path taken is the one that gets the job done right and in the least burdensome and most cost-effective way. That completes my statement.

Chart 1--April 2004 Live Cattle Futures

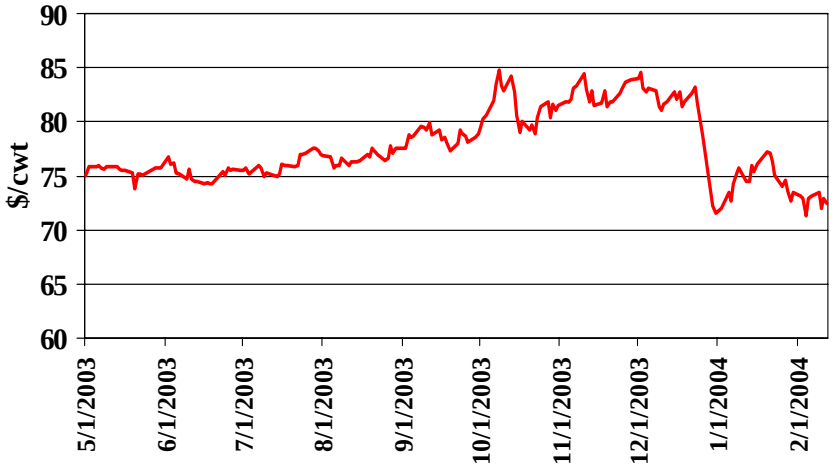

Chart 2--Nebraska Choice Steer Price

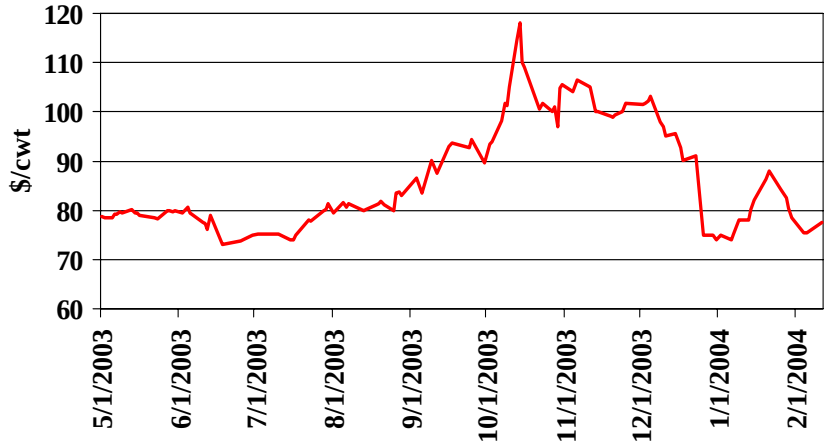

Table 1--U.S. Beef Supply and Use, 2003 and forecasts for 2004 (million pounds)

	2003	Forecast released December 11, 2003	Forecast released February 10, 2004	Percent change from December to February
Beginning stocks	691	500	519	3.8
Production	26,339	25,505	25,480	-0.1
Imports	3,006	3,430	3,330	-2.9
Total supply	30,036	29,435	29,329	-0.4
Exports	2,523	2,620	220	-91.6
Consumption	26,994	26,265	28,534	8.6
Per capita (lbs/person)	64.8		67.8	
Ending stocks	519	550	575	4.5
Choice steer price ($/cwt)	84.69	84-91	72-77	-14.9% 1/

1/ Evaluated at mean of range.